

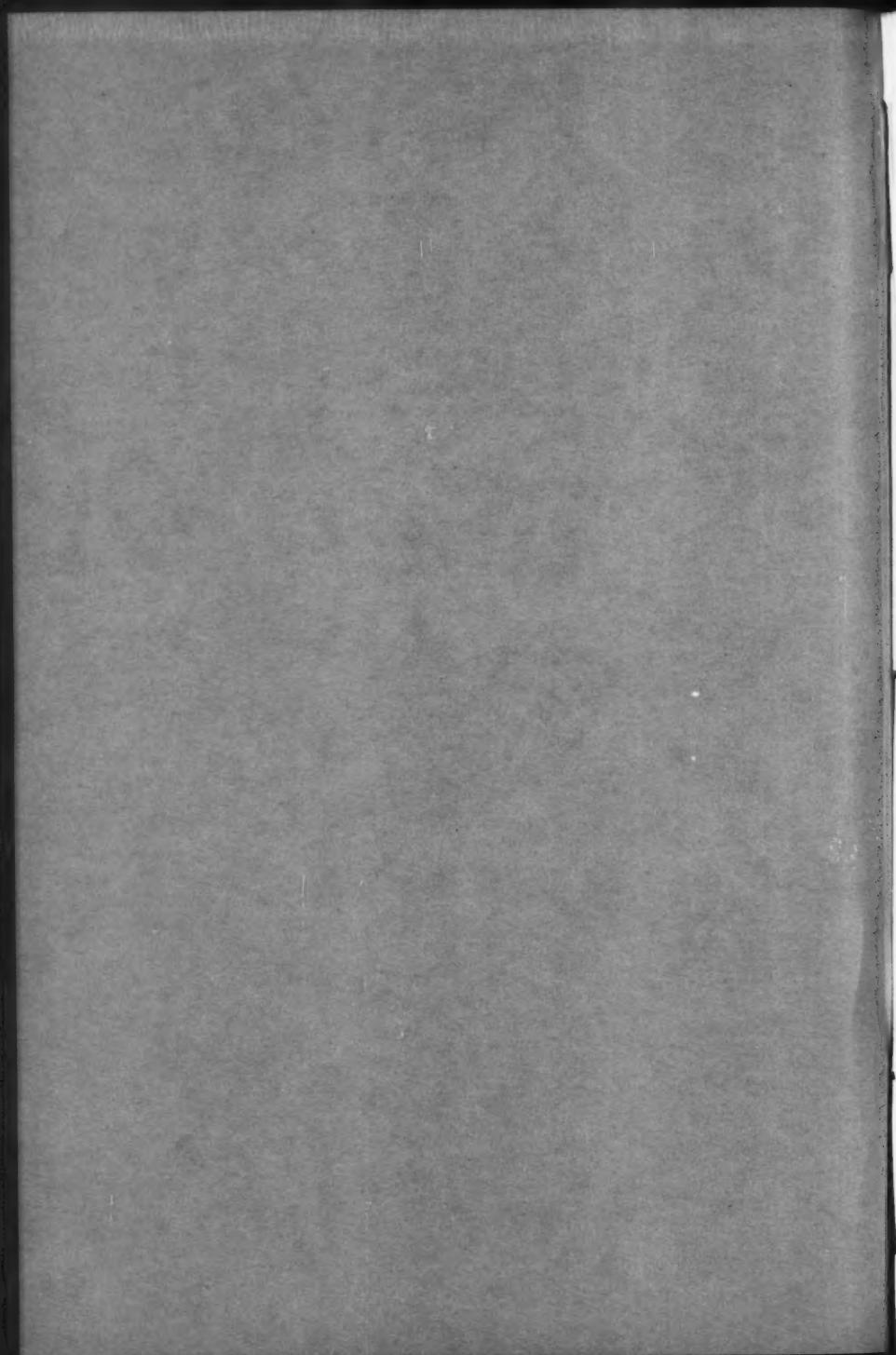
L. R. B. & M. JOURNAL

VOLUME 11

NUMBER 3

MAY, 1930

Published by
LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors



L. R. B. & M. JOURNAL

VOLUME ELEVEN

MAY, 1930

NUMBER THREE

Audit Reports *

By F. C. KOHNKE

(San Francisco Office)

Much has been written regarding audit reports, but in my reading I have been impressed with the fact that, after all, the preparation of a good audit report must result primarily from experience, and that it is practically impossible to lay down any detailed rules. It is, of course, possible to outline the general procedure. However, since it would be manifestly impracticable to even attempt to fully cover the subject in a talk of this kind, it is my intention to deal principally with what seem to me to be the difficulties most generally experienced by the staff in writing audit reports, and perhaps to offer some helpful suggestions for overcoming these difficulties.

It may not be amiss as a background for discussion of these matters, to outline briefly the following points:

1. The importance of the audit report.
2. The purpose.
3. Style and general form.

The importance of submitting a well written, clearly worded and appropriate report to the client upon completion of the audit cannot be too strongly emphasized. The report is our final contact with the client on

the particular engagement, and his judgment of the effectiveness of our work will probably be based on the impression which he receives from the report. As Colonel Montgomery says, "What shall it benefit an auditor if he perform the highest grade of professional work and be unable to present his reports in a form acceptable and comprehensible to his client?" It should also be borne in mind that the report may, and probably will, be used by the client with others outside of his organization.

The purpose for which the report is to be used as a primary consideration, as this should to a certain extent dictate the form in which the report is prepared. Consideration must also be given to the personal make-up of the client and to the conditions which we find in his organization. Some clients may be interested in reading an elaborate and detailed report, while others would be merely bored by such a report. For the latter class we should naturally aim to make the report as brief and concise as is consistent with the matters to be reported upon. In some organizations the client's own accountant furnishes him with elaborate statistics and operating comparisons and it would, therefore, be superfluous to repeat this in our report. In some cases the client does not have this information

*A paper presented at a meeting of the staff of our San Francisco office and a symposium of the discussion which followed.

available from his own records and is vitally interested in receiving it from us. The point that should always be kept in mind is that within certain general lines our report must be written to suit the particular needs of the case.

As to style, the English should be clear and concise, and short sentences should be given preference to lengthy involved constructions. Paragraphing should be used a little more freely than in ordinary writing.

Paragraph captions, and in a large report, sectional headings, are helpful in breaking up the heavy appearance of solid reading matter. Also, they aid in directing the reader's attention to the various matters treated of in the report, and especially those of greater importance.

The general tone of the report should be dignified, in keeping with the professional nature of our work, and to this end we should avoid colloquialisms and trite expressions. We should strive for precision in stating facts if the report is to be convincing, and we should aim to avoid any ambiguity. It has always been my idea that a satisfactory style in report writing can only be acquired with constant practice, but that much assistance in this direction can be gained by the auditor if he will make it a practice to read reports which are issued by the firm from time to time, particularly those which are perhaps a little out of the ordinary.

The following is an outline of a general form of report for the more usual class of auditing:

1. *Introduction*: The period audited and the general nature of the

work performed here stated. Where the audit has been made for a special purpose, it is also well to state the purpose in the opening paragraph.

2. *Operating comments*: A general statement of the results of operations, comparative with results for the prior period, should be used as an introduction to any detailed comments which we may wish to make regarding the operations for the particular period under review. This introductory statement is usually followed by a comparative summary of the operations, which in turn can be supplemented by further analysis of the outstanding differences between operations for the two periods.

This comparison of operations not only serves to present to the client a comprehensive picture of the operations for the period, but is also a very important part of our audit work, since it takes the place to a large extent, of detailed verification of income and expenses. The tendency in recent years has been towards balance sheet audits, with tests of operations, in lieu of the detailed audits which were formerly made. In my opinion, the most effective way to test the operating accounts is by comparison with prior periods and by comparisons within the period itself. By this I have in mind the analysis of the operations by months. Such an analysis gives us a very definite check on the regular recurring charges, and a basis for investigation of unusual fluctuations.

3. *Application of funds*: A resume of the change in the balance sheet at the beginning and end of the period under review may be used to supple-

ment the comments upon operating results. Many executives are interested in the effect of the operations upon their financial condition as reflected in the balance sheet.

One of the most effective ways of presenting this picture is to prepare a summary of funds provided and their application. Such a summary should be so arranged as to show the important transactions during the year, as for instance, issues of additional capital stock, additions to plant and equipment, and any unusual transactions of an important nature. The preparation of this summary is also a valuable check upon the correctness of the audit.

4. *Balance sheet comments:* In my opinion, the balance sheet comments should be confined to items of importance on the balance sheet, or to those items which require amplification beyond the statement on the balance sheet. These comments need not necessarily follow the order of the balance sheet, although this is the usual practice. Where one or two items are of outstanding importance they might be given preference in order of presentation. Perfunctory comments merely for the purpose of covering every item should be avoided.

Generally speaking, I believe that the following items are usually of sufficient importance to be commented upon:

- (a) Inventories.
- (b) Summary of changes in plant and equipment accounts, including depreciation reserves.
- (c) Reconciliation of the report surplus with the surplus shown by the books, if adjustments

have been made by us which have not yet been reflected on the books. Whenever possible, however, any adjustments should be agreed upon with the client before submission of our report and entries made by the client's staff to give effect thereto.

5. *Recommendations:* The accountant has been educating the business man to look to him for recommendations regarding his accounting and operating methods his organization, and his personnel, and we should embody in our reports such recommendations as we have to make in regard to these matters. We should be careful, however, not to criticize unless the criticism is constructive, and to avoid enlarging upon small matters.

6. *Scope of examination:* Except in cases where a detailed audit is made, when a statement to that effect is all that is necessary, it is well to include in our report a general resume of the scope of the examination. Any important items which we have been unable, or requested not, to verify should be clearly set forth, with reference to any amplifying comments in regard thereto which may appear elsewhere in the report.

As stated in the beginning of my talk this evening, the subject of audit reports is such a large one that I have not attempted, in the preceding remarks to do any more than offer a general picture of the requirements of an audit report as a background for the particular message which I hope to convey to you. This message has to do with the difficulties.

The matter of attitude, is, I be-

lieve, one of the outstanding difficulties which is encountered by members of the staff in writing audit reports. Because of the importance of the report, and the impossibility of securing any definite rules for their guidance, many auditors have felt within themselves a certain fear in writing reports. Some of this fear may be the result of a lack of confidence in their own ability to clearly present the results of their audit work. I have had it said to me many times, "I feel confident that I know how to make a good audit and that I know how to prepare the schedules, but when it comes to writing the report I find myself at sea." As a consequence of this feeling, the auditor very often delays writing the report and finds it necessary to pick up the threads anew when he finally does start with consequent loss of time and effectiveness. These conditions indicate that in the mind of the auditor there is a gap between the audit work and the writing of the report.

This lack of coordination and correlation between the audit work and writing the report is, in my opinion, the principal cause of the difficulties which some auditors experience in the preparation of reports. The rendition of a good report is the final goal of the assignment and all of our work should, therefore, be so laid out as to attain this goal. It is, of course, not always possible at the beginning of the engagement to determine just what kind of a report would be best suited to the case in hand. This applies more especially to original engagements, and to a lesser extent to continuing engagements. However, I believe that,

if the auditor keeps before him the idea that all the work he is performing is for the purpose of rendering a good report, he will find it possible to arrange for the necessary correlation between the auditing work and the writing of the report soon after the beginning of the engagement.

As an illustration, take the operating comments in the report. If the nature of the business warrants more or less detailed comments on the operations, the necessary analysis and schedules should be provided for as a part of the program. We should not leave the development of explanations for fluctuations until the time of writing the report, since we will then probably find that we have not the necessary data from which to compile intelligent comments. Moreover, as previously pointed out, the comparative review of the operations with those of the preceding year, and sometimes within the year itself, offers a very satisfactory auxiliary method of auditing.

Along these same lines, I believe that the auditor should write into his working papers full comments regarding any items which he intends to discuss in the report. These comments should be written at the time the item is investigated, and the style should be approximately that which the auditor expects to use in the report. One of the main advantages of this procedure comes from the fact that the auditor at the time has all the circumstances in his mind and is not likely to overlook any essential detail. If the writing of these comments is deferred until the report is being written, it very often happens that the auditor will find that there is

some data missing which is essential to a proper presentation of the point which he has attempted to make.

Moreover, this procedure, I believe, tends to improve the style of the report and to eliminate the objectionable feature of sameness which too often creeps in as a result of writing all of the report at one time. By completing the comments at the time of investigation, the item is surrounded with all of the local color and the auditor's choice of English is likely to be better than if he composes all of the report at one time.

What has just been said with respect to developing the comments for the report during the course of the audit naturally leads to the further thought that, whenever possible, the report should be written at the client's office. Supplemental inquiries, the further looking up of records, etc., for which necessity may be disclosed when writing the report, can be most readily and effectively done while the auditor is still at the client's office. There is a tendency too, to slight the investigation of a matter which does not develop until after the return to our office. On occasion, also, the client or his staff may feel annoyed by the apparent reopening of our audit which appeared to have been completed upon leaving the client's office. Incidentally, the client is not aware of the time which the preparation of the report may have required if the work thereon has been done in our office rather than in that of the client. As in the case of all rules, there are warranted exceptions, but members of our staff will make no mistake in observing this as a general rule just as far as feasible.

Synopsis of Discussion

The inclusion of graphs in reports was considered, but it was agreed that in the usual engagement, the expenditure of time necessary to produce charts of any great value was not commensurate with the results to be achieved and that statistical summaries properly prepared could be used to achieve the desired results.

It was suggested that more consideration should be given to analysis of the balance sheet through the use of ratios and of reviews based on such ratios. It was pointed out, however, that unless intelligently handled, reviews based on ratios are dangerous; for instance, a ratio of accounts receivable to sales will vary according to the class of business so that any comparison ought to be with companies in similar lines of business. Such comparisons are difficult to obtain, partly because of the inability of a firm of accountants to disclose any information obtained from audits of other concerns, and partly because of the secrecy maintained by many concerns regarding their operations. Also, oftentimes, the accounting firm has only one client in a particular business. Where, however, between periods, striking differences arise in the business audited, these differences should be brought out and commented upon.

The utilization of statistical data in the client's files was suggested; for instance, mileage statistics in a railroad, tonnage produced and sold in a mining company. An intelligent use of such statistics not only helps the auditor in accounting for fluctuations in revenues and expenses but also aids him in

(Continued on Page 24)

Accounting Experience

By HERMON F. BELL

When a representative asked me for a short article for the JOURNAL, he left with me the responsibility of choosing the subject. Decision had to be made whether to write on a strictly technical subject, discuss some moot or open question of accounting theory or procedures, or endeavor to present in a non-technical way some topic primarily of business interest.

Thinking upon this choice of a subject, I decided to make a few comments on a subject that in a sense falls in its various phases in all of the three groups or classes of topics mentioned.

Nothing is more valuable to us as individuals or to the firm than the right kind of accounting experience, while the service rendered to clients is also largely dependent thereon.

So large a subject can be treated only in outline at this time. For convenience this informal consideration of accounting experience is grouped around four questions:

I. What is accounting experience, and what is its nature and authority? Is the wisdom of the past to be summed up in a series of rules, precepts, or accounting instructions which when mastered and followed will make one experienced, or to what extent or in what degree is accounting experience more vital and different from any summarized science of accounting?

II. How may accounting experience be gained, and what is the effect of our mental attitude upon our achievements, or to what extent or in what

way do we limit our own accounting experience needlessly?

III. The client's interest in our experience.

IV. The possibility of progress, and the mutual benefits from the best type of accounting experience, to the individual, the firm and clients.

I

Experience as used in these paragraphs means accumulated wisdom. It is gained by study and by reading, by contact with those of larger or different experience, and probably most of all by what we do ourselves, the problems we meet and the way in which we solve them.

It is true that much can be learned, and many mistakes can be avoided by careful study of what others have found good procedure, and which has become so established as by many to be accepted as an absolute rule. Contact with those of larger experience sometimes astonishes us at first, as we see how they seem to ignore or go contrary to some of these precepts which we have come to believe are infallible and to be followed at all times. Such differences may seem greater sometimes than they really are. But in any case, in my opinion, we do not have a good background of accounting experience until we have:

(a) Learned the so-called established rules and standards;

(b) Come to realize, by contact with eminent practitioners, that good

accounting practice is far different from observance of an established program or procedure, but has an element of personal understanding and initiative or in a word the element of versatility;

(c) Attained ourselves such freedom as to methods and procedure that we are not bound down by our own past experience, or by rules and programs, but guided forward by them all.

In short we learn the precepts of accumulated experience, then we learn to modify them wisely, and finally we should be able to create new procedure in case of new condition.

II

Probably all young accountants, and older ones too, agree in a certain degree of emphasis upon the value of accounting experience. The question is how is it gained.

Familiar to all of us are the rules of Accountancy Boards prescribing as essential for certificates specified experience, measured usually in terms of so many years practice, modified at times by some credit for academic training. Of course such rules and measures have to be established as standards, but we all know that accounting experience is not measured solely or even in very large measures by elapsed time only.

One man may have more experience in a month than another in a year, due partly to circumstances, but largely to himself.

Experience has two elements, the outer and the inner. It depends upon environment, happenings, what there is to be seen and felt and studied, but

also upon the personal qualities we bring with us.

Of the newly appointed Poet Laureate of England it is said that out of earnings of a dollar a day in a carpet factory in Yonkers, he began to buy books, hoping to become a physician some day. By chance he bought a copy of Chaucer and found in it "a new world of wonder and delight" and began himself to write. To you or to me Chaucer may mean little or nothing.

Victor Hugo in one place writes interestingly of the effect upon himself as a boy when he first came upon a book by Lucretius. For the whole day he was entirely oblivious to hunger and weariness. Ever afterward he had a different outlook upon life.

Any worth while experience, including the best type of accounting experience, has elements of likeness to the foregoing illustrations. It must include what we bring as well as what we meet.

It is in itself no sure token or guarantee of broad and versatile experience to become associated with an eminent practitioner, or member of a successful organization of enviable reputation. The opportunity is indeed present, but that is all.

I feel that by far the larger part of the difficulty of many juniors, and perhaps of others also, in attaining the right kind of experience, is in their own mental attitude, too much of imitation and too little self reliance. In our organization we all appreciate our practical dependance from day to day upon the work of proof readers and the general excellence thereof. No criticism or reflection upon their work is implied in the following quotation,

which perhaps should appeal to us especially, because we should be able to sense at once the force of it.

If a young man is "wholly absorbed in imitation he is like a proof reader; if he is successful he is taken as a matter of course, and he gets no credit; if he is unsuccessful and makes mistakes, he is awkward;—he soon realizes that the most promising rewards for the most careful efforts are negative and he is simply goaded on from fear of the consequences of failure,—But when the idea fairly dawns upon them that true scholarship is not some mystical quality of genius—but in simple honesty to one's self 'in reasoning and weighing and following evidence' they perceive that the difference between the greatest and the smallest consists only in the quickness and comprehensiveness and thoroughness and humility of their work. Truth to one man is truth to all if they can get exactly the same data and the same standards."

Effective experience, indeed all progress in knowledge and wisdom, is, if I understand aright, based upon three elements or factors:

(1) Habit, which enables us to make so much of our work almost automatic.

(2) Association of ideas, or the relating of each new experience to past experience.

(3) Freedom of thought so that we can rightly evaluate present problems and not blindly relate them to past experience without discrimination but meet new problems in a new, and original, way, if need be. In this connection I particularly like the follow-

ing from Carlyle: "It is not necessary a man should himself have discovered the truth he is to believe in—The merit of originality is not novelty; it is sincerity. The believing man is the original man; whatsoever he believes, he believes it for himself, not for another."

III

If there is even a modicum of truth in what has been written thus far, surely all clients must be greatly concerned with the measure and the kind of experience of those who do even the more routine phases of audits.

The firm's chief asset is, and always will be, in my opinion, the personalities that guide it and in the character and experience of men and women throughout its entire organization.

Accounting experience, in relation to our work for clients has two main phases or aspects:

- (1) General accounting experience.
- (2) Specialized accounting and business experience.

When these two are united the interests of the client are best served. We all appreciate to some extent, but would often do well to give greater thought to the large fund, as it were, of accumulated experience, available throughout our organization, especially as respects experience of the different offices and staff members along specialized lines, all with the background of general accounting experience. It is such experience that enables one to seize at once upon the salient features of a new problem and leave the unimportant and non-essential alone.

There is one other phase of our ex-

(Continued on Page 23)

The Organization of the Senior's Engagements in the Busy Season

By N. CARY HAYWARD

(Boston Office)

The concentration of a large proportion of the professional accountant's engagements in the first two or three months of the year presents a number of special problems. These include:

The direction by the senior (in many instances) of a number of engagements simultaneously.

The assignment of members of the staff as assistants for the first time on the particular engagement. These men are carefully selected on the basis of their ability and experience. However, they will necessarily be somewhat unfamiliar with the systems and accounting methods in use at clients' offices, so their assignment to engagements implies on the part of the senior increased responsibility for supervision and control.

The demand on the part of clients to receive their reports as soon as possible after the yearly closing, in order to have audited statements ready for presentation to stockholders at their annual meeting, to avoid delay in the preparation of tax returns, and for other reasons.

Under these conditions, the senior's problem is to save all possible time in completing his assignments. A certain amount of pressure and overtime work is unavoidable at this season of the year, but it can be reduced somewhat by the use of a well-organized plan for handling the engagements. The principal features of such a plan are presented in the succeeding paragraphs of this paper.

Schedule of Assignments

The senior will ordinarily know some time before the actual work

commences what engagements he is to handle. A written schedule of assignments, containing the following information for each engagement, will be found useful in planning the work and making arrangements with the assignment clerk for the necessary assistance:

Name of Client

1. Nature of the engagement (audit-tax-special)
2. Reports to be submitted (including tax returns)
3. Date on which reports should be delivered
4. Dates when client's books will be closed
 - Cash book
 - Accounts receivable ledger
 - Voucher Register
 - General Ledger
5. Details of the audit to be completed before December 31st
6. Schedules to be prepared by the client's staff
7. Estimated hours required for field work, by months (stated separately for the senior, permanent staff assistants, and temporary staff assistants)
8. Number of assistants required and dates on which work will probably be started and finished
9. Information relating to year-end work
 - Cash counts
 - Examination of securities
 - Supervision of physical inventories

Items 7, 8, and 9 should be summarized at the foot of the schedule in a section "Time Summary—All Clients."

In estimating the time required for the engagements, a reasonable allowance should be made for any delays that may arise and for new features.

On the completion of this schedule of assignments, the senior should make a study of his engagements as a whole, to determine the exact order in which the work is to be carried out, where to place his best assistants, and how to schedule his own time. Some of the senior's time should be reserved, if possible, to handle engage-

ments which do not develop until after January 1st.

Audit Programs

The schedule of assignments should be supplemented by a fully-detailed audit program for each engagement, so planned as to enable the senior to direct the work with the least loss of time. This is of particular importance in those cases where the senior is unable to give his full time to one engagement. A suggested form is shown below:

A. B. JONES COMPANY AUDIT PROGRAM—December 31, 1929

Work to be Done	Esti- mated Hours	Progress of Work		Reviewed By Senior	Work Done By
		Started	Completed		
CASH (Client's records will be ready 1/5)					
Write letters requesting confirmation of bank balances direct to our office	1½	12/26	12/26	12/26	NCH
Count petty cash fund (½—8:30 A. M.)	1	1/ 2	1/ 2	1/ 5	JCW
Obtain bank statements from client and reconcile, vouching checks for period necessary to cover outstanding:					
First National Bank of Boston	3	1/ 5	1/ 5		JCW
State Street Trust Co., Boston	1	1/ 5	1/ 5		JCW
National Shawmut Bank, Boston	1	1/ 5	1/ 6		JCW
Equitable Trust Co., New York	½	1/ 6	1/ 6		JCW
Add cash books for:					
November	3	12/20	12/21		AGB
December	3				
Trace December cash receipts to deposits in bank statements	3				
Trace all transfers between funds in December	2				

Work to be Done	Esti- mated Hours	Progress of Work		Reviewed By Senior	Work Done By
		Started	Completed		
ACCOUNTS RECEIVABLE (Subsidiary ledger will be closed 1/8)					
Check client's tapes of open balances to subsidiary ledgers and to controlling account in ledger	10½	1/ 8			AGB-LSM
Check ageing schedule prepared by client	7½				
Check schedule of collections from ½ to 1/20/30 prepared by client					
Test sufficiency of reserve for bad debts	7½	12/20	12/21	12/21	NCH
Etc., etc.					

In the sample program shown above, it is indicated that the senior's review of bank reconciliations is yet to be completed, some of the work relating to cash has not been started, and two assistants are checking the client's tapes of open balances in the accounts receivable ledgers.

Information regarding progress of the work (shown in the last four columns) should be filled in by the senior as the work proceeds.

A useful device is to give each man a manilla folder in which to keep his written instructions, sample forms, and partly-completed working-papers. Completed schedules should be placed in the senior's folder for his attention.

By reference to an audit program of this type and to the schedules which have been completed since his last visit, the senior is able to keep very close supervision of several engagements at the same time, without having to give more than a minimum of his own time to this part of the work.

Preliminary Work

Any steps that can be taken to reduce the time requirements in January and February, when the accountant is busiest, will help to relieve the situation. The completion prior to December 31st of as many of the details of the audit as possible is therefore particularly important. A partial list of such items follows:

Preparation of:

Schedule of assignments

Audit programs

Pro-forma statements for the current report (including last year figures on comparative statements)

Confirmation letters to banks and others

Verification of clerical accuracy of books
Test of cash receipts and disbursements

Analysis of changes in fixed assets and in depreciation reserves (through Nov. 30th)

Test of sufficiency of bad-debt reserve, based on the situation at November 30th. Consideration should be given to delinquent accounts not charged off at that date

Analysis of profit and loss accounts (through Nov. 30th)

Schedules of securities owned on December 29th or 30th (for use in examination at year-end)

Use of Current Carry-Forward File of Working Papers

There is a certain amount of information relating to each engagement which does not change to any extent between audits. When questions come up during the course of the current audit with regard to any of these matters, as, for example, the exact terms under which the preferred stock of a corporation was issued, a search of the files of working papers for several years back may be necessary to locate the desired information. This takes time, and should be eliminated if possible. It is therefore suggested that any information of recurring interest be accumulated in a separate file of working papers called "Current Carry-forward File." Such a file, properly indexed for quick reference, may contain a copy of the latest audit program, notes relative to leases and general contracts, excerpts from by-laws or articles of co-partnership, minutes of important stockholders' and directors' meetings, terms of capital stock issues, information pertaining to ledger accounts, and any other general information.

Organization of the Work

In order that the schedule of assignments may be completed and the work more efficiently organized, a conference should be arranged with each client (not later than December 15th) for a preliminary discussion of the engagement. At this conference we should ascertain when the various books and records will be closed and when our report should be delivered. We should also make arrangements for preliminary work and for cash counts, examination of securities, and other work to be taken care of at December 31st.

Since the senior may be handling several assignments at the same time, his participation in the engagements will ordinarily be limited to direction of the work, conferences with the supervisor and with the client regarding unusual items, review of completed work-papers and schedules, and preparation of the report to be submitted. The senior is responsible for the correctness of the details, however, and must be sure that the work is done right.

The senior should form an opinion of the ability of each assistant, ascertain his previous experience, and reach a careful decision as to how much he can depend on him.

Even though the assistants may be assigned to an engagement for the first time, they will have a general familiarity with the purpose of the work to be done and the methods to be followed. However, the senior's instructions should be explicit; preferably in writing. It is frequently advisable for the senior to head-up the schedules to be prepared.

Enough work should be planned ahead for assistants to keep them busy until the next visit of the senior. If difficulties arise during his absence, assistants should communicate with him by telephone, rather than to waste time.

The client's staff should be used as much as possible, to expedite the work and reduce the cost of the audit.

Report Writing

Certain parts of the text which is to accompany the audit report can be written in advance of the completion of the work at the client's office, as, for example, comments regarding cash, securities, property accounts, and other balance sheets items. This method permits the senior, while on the job directing the details, to be engaged on part of the work which cannot be turned over to assistants. The details are then clearly in mind, and the possibility is avoided on having to return to the client's office for necessary information after the work there has been completed.

To summarize, this plan of organization contemplates the following:

The preparation and use of a schedule of assignments

Fully detailed audit programs, so planned as to enable the senior to direct the work with the least loss of time

Completion of all possible preliminary work before December 31st

The use of a current carry-forward file of working papers containing general information (for quick reference)

Organization of the work to relieve the senior of as much of the detail work as is possible

The preparation of the report text during the course of the work

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

PARTNERS

WILLIAM M. LYBRAND	New York	HERMON F. BELL	New York
T. EDWARD ROSS	Philadelphia	GEORGE R. DRABENSTADT	Philadelphia
ROBERT H. MONTGOMERY	New York	A. KARL FISCHER	Philadelphia
JOSEPH M. PUGH	Philadelphia	RICHARD FITZ-GERALD	Detroit
WALTER A. STAUB	New York	WALTER B. GIBSON	Los Angeles
H. H. DUMBRILLE	New York	CLARENCE R. HAAS	Philadelphia
JOHN HOOD, JR.	Philadelphia	NORMAN J. LENHART	New York
WALTER S. GEE	New York	WILLIAM F. MARSH	Pittsburgh
HOMER N. SWEET	Boston	HOMER L. MILLER	Chicago
T. B. G. HENDERSON	Chicago	DONALD P. PERRY	Boston
GEORGE R. KEAST	San Francisco	DONALD M. RUSSELL	Philadelphia
PRIOR SINCLAIR	New York	WALTER L. SCHAEFFER	Baltimore
	MASSACHUSETTS	CONRAD R. TAYLOR	New York
CARL T. KELLER	Boston		

OFFICES

NEW YORK:	Downtown, 110 William Street	CINCINNATI	3 West Fourth Street
	Uptown, 385 Madison Avenue	ROCKFORD	321 West State Street
PHILADELPHIA	Morris Building	SAINT LOUIS	411 North Seventh Street
CHICAGO	231 South La Salle Street	SAN FRANCISCO	2 Pine Street
BOSTON	80 Federal Street	LOS ANGELES	Security Title Building
NEWARK	24 Commerce Street	PORTLAND	Porter Building
BALTIMORE	First National Bank Building	SEATTLE	L. C. Smith Building
WASHINGTON	Investment Building		
PITTSBURGH	Union Bank Building	LONDON, ENGLAND	13, Charing Cross
DETROIT	Book Building	PARIS, FRANCE	3 Rue des Italiens
CLEVELAND	Union Trust Building	BERLIN, GERMANY	56 Unter den Linden

The Saint Louis Office

During the past few years our clientele in Saint Louis has been growing rapidly. While the need for an office in this territory has been felt for some time, the decision to establish one was not finally reached until February of this year. Immediately following this decision the necessary arrangements were made and the opening of the office was formally announced on March first.

The office is located at 411 North

Seventh Street, in the center of the business district. It is difficult to procure desirable office space in Saint Louis, but fortunately a favorable suite was obtained in a recently constructed modern building.

The city of Saint Louis is located on the Mississippi River at the junction of the Missouri River and 200 miles north of the Ohio River. It is the sixth largest city in the United States, having an estimated population of 857,400. Owing to the fact that

it is not within a county and that it is restricted to an area of 61 square miles, its largest population growth in recent years has occurred outside its actual boundaries. The estimated population of the district which is considered as belonging to Saint Louis is 1,350,000. This city is the second largest transportation center in the United States having 19 trunk line railroads with 26 lines radiating in all directions. Furthermore, it is at the center of the great inland waterway development which comprises 13,394 miles and which connects by water 29 of the principal industrial cities of 20 states in the Mississippi Valley.

Saint Louis is the banking headquarters for all of the southwestern and much of the southeastern part of the United States. With an annual value of products amounting to \$942,000,000, it stands sixth in this country as a manufacturing center.

The Saint Louis office has among its diversified list of clients, companies who manufacture air-planes, air-plane motors, large metal valves and ice-making machinery; distributors of motor trucks, and of ice, coal, fuel oil and novelties; fur finishers and dyers; and a national aerial transportation company.

Mr. Raymond L. Ward, who was appointed manager of the Saint Louis office has been connected with the Chicago office staff for the past six years.

Silence

The outstanding financial genius today is George F. Baker, President of the First National Bank. Some years ago when the elder Morgan went to

Europe during a critical time, he called his partners around him and told them that if any emergency arose during his absence, they should consult Mr. Baker and whatever Mr. Baker told them to do, they should do.

Almost the outstanding virtue of a public accountant is reticence, both about his personal affairs and about the affairs of clients. Everyone is apt to forget the importance of this virtue and for that reason we should remind ourselves of it at frequent intervals.

It is said that the only newspaper interview which Mr. Baker has ever given consisted of 114 words and is mainly in praise of silence. He said:

Business men of America should reduce their talk at least two-thirds. Every one should reduce his talk. There is rarely ever a reason good enough for anybody to talk. Silence uses up much less energy. I don't talk because silence is the secret of success.

I did nothing unusual when I began. My first job that I chose to call a job was in a small bank in Albany. I was a very quiet worker and that served to distinguish me. It was there that I made and invested my first thousand dollars. Then I simply planned my way to Wall Street. It was with this money that I bought the First National Bank.

Notes

The several national organizations of accountants will hold their 1930 conventions as follows:

American Institute of Accountants at Colorado Springs, Colorado, September 15-18.

American Society of Certified Public Accountants, at Denver, Colorado, September 8-15.

National Association of Cost Accountants, at Syracuse, N. Y., June 16-19.

Simplification and the Accountant

By GEO. A. COOPER

(Division of Simplified Practice, Bureau of Standards, U. S. Department of Commerce)

"Good will, in its commercial sense, is the present value of the right to receive expected future super-profits, the term 'super-profits' meaning the amount by which future revenue increase or advantage, to be received, is expected to exceed any and all economic expenditure incidental to its production." Such is one definition given to it. Every business, whether or not successful, looks forward to attaining or increasing good will.

"We use it—we like it." This sums up very briefly and to the point, one manufacturer's idea of simplification. It likewise proves to be the net total worth of our good will. No monetary value can be placed on it, but to us that expression is priceless, because it tells you and everyone the general impression of Industry in regard to simplification.

There are other subjects affecting accountants in their work including taxation, valuation, depreciation, overhead expense, statistics and graphics, credits and collections, banking, bankruptcy, financial statements, and others; but last, though far from least, we must add inventories.

Inventories occupy a prominent place in the sun right now, insofar as accountants are concerned. No less an authority than THE AMERICAN ACCOUNTANT permits me to quote that "the importance of the inventory item of a certified financial statement in the eyes of the banker is indicated by the statement made by a cashier of

a western bank at a recent meeting of the Oregon State Society of Certified Public Accounts, to the effect that he had made a survey of 3842 financial statements and found that the inventory constituted 24 per cent of the total assets shown in the statement. He cited those figures, and added that the banker is particularly interested in the problems of obsolescence, writing up, and unbalanced items, in connection with inventories."

A conclusion reached by others was that there seemingly exists a field for a new type of professional worker—that of the inventory specialist, or engineer—call him what you will.

The intelligent application of simplified practice helps reduce inventories, rids shelves of "dead wood," tends to eliminate obsolescence, increases turnover, cuts down time of taking physical inventories and goes a long way in helping the accountant verify the inventory. It helps relieve that uncertain feeling when you attach your signature to the inventory certification.

Simplified practice is the reduction in sizes, dimensions and immaterial differences of commonplace commodities as a means of eliminating avoidable waste.

The Dutch shipbuilders of the 17th Century were the founders of industrial simplification, according to one report. They built parts of ships in different ports and then brought them together at one assembly point. This is the first known instance of inter-

changeability in manufacture on a large scale.

Eli Whitney in 1809, applied machinery to the entire manufacture of firearms, of which he made a large quantity for the United States. In the words of a contemporary writer: "For every part of a musket, he has a mold, and there is said to be an exactitude in the finishing that every part of any one musket may be adapted to all the parts of any other." Thus it will be seen that simplification was applied even in that day and age with comparative success, and Mr. Whitney's inventory probably was reduced accordingly.

A large garage company simplified its equipment to one make of motor trucks and one make of passenger cars. It reduced spare parts stock from 20,000 to 5,000 items, reduced varieties of tires, oils, greases, etc., decreased stockroom space and investment, reduced purchase prices and costs 2 cents per mile in 1922 over 1921 and 5 cents per mile in 1922 over 1920.

A large chain hotel simplified its requirements and reduced costs of items simplified, 20 per cent below former cost, released \$350,000 from former inventories and saved \$100,000 per year. How? By reducing 30 styles of glassware to 10, 15 designs of carpets to 3, many patterns of table linen to 1, and similarly simplifying nearly 200 other supply items.

There were 108 new patterns of sterling silver flatware turned out by 9 manufacturers in ten years beginning January 1914. The cost of dies per pattern was \$30,000 and the value of stock was \$60,000 per pattern, making a net investment of almost \$10,000,-

000. Simplification reduced new patterns to one every two years, per manufacturer. The saving in ten years on dies and stock alone, estimated by members of the industry, will be over \$5,000,000.

Mr. T. R. Preston, president of the American Bankers' Association, says that "85 per cent of all checks issued now are simplified checks" and that "universal adoption will save \$20,000,000 a year in the conduct of business."*

A large utility reports that simplification reduces inventory investment, inventory discrepancies and overhead expenses, increases efficiency of workers, purchasing power, tends to better and simplified inspection, a more accurate accounting system and quicker deliveries. A three year campaign resulted in reducing inventories 36 per cent—inventory discrepancies from 1.9 per cent to 4 per cent—and expenses 36 per cent. Their turnover will now average 3 times a year, whereas it was formerly 1.7 times a year. The efficiency of their records increased 29 per cent and their investment in materials as of December 31, 1927, reflected favorably with 33 other large utilities as it ranked second lowest when compared with plant investment and fourth lowest when compared with gross earnings. Other large utilities have followed the same relative scheme with comparative results.

The accountant is interested in Commercial Forms. The nature of his work necessitates it. THE AMERICAN ACCOUNTANT reviewed and ex-

*The size of the simplified check is $3\frac{3}{8}$ " x $8\frac{3}{8}$ ".

plained the simplified invoice form very thoroughly.

One large company reviewed 16,000 forms. Changes in color or paper were made in 500, 75 were discontinued, 9 revised, 45 combined to 22, letterheads reduced from 161 to 27 and pen points reduced from 30 to 6.

General Lord, Director of the Budget, says that "a deficit is what you've got, when you haven't as much as you had when you didn't have anything." You can judge just how accurate that definition is.

But simplification and deficits just don't occupy the same berth. Industries concerned estimate that 10 simplified practice recommendations alone, are saving American Industry approximately \$300,000,000 a year.

This is what one manufacturer wrote us:

Reduces inventory	\$10,000
Saves interest on capital tied up in idle stock	600
Releases storeroom space for more productive uses	1,200
Reduces handling charges.....	1,200
Reduces interruptions for readjustment of machinery	300
Increases productive capacity of employees and machines	2,500
Reduces clerical work	1,200
Improves quality of product.....	2,000
Increases turnover	20,000
Facilitates comprehensive planning for investment in inventories of both raw materials and finished products	5,000
Reduces selling expense.....	1,000
Total annual saving	<u>\$45,000</u>

Could anybody point a more descriptive picture?

The ultimate consumer pays for it all. Since we are all consumers, we

should cooperate to eliminate waste in production, distribution and consumption as the means of reducing our own costs. If you cannot apply simplification to the things you sell, then apply it to the things you buy. Concentration of your purchasing power on the simplified lines whenever possible and practicable, will help industry effect savings which should redound to you.

Simplification means one or more of these advantages to the consumer:

1. Lower prices.
2. Better quality.
3. More prompt deliveries.
4. Ease of installation.
5. Smoothness of operation.
6. Simplified specification and nomenclature.
7. Wider markets.
8. Greater satisfaction.

The percentage of adherence to simplification applying to 12 building and construction commodities, averages over 87 per cent; for 7 hardware and mill supply items, over 80 per cent; for 2 plumbing supply items, over 98 per cent; and for 3 miscellaneous commodities, over 91 per cent. The 1928 average for 24 fields is over 87 per cent.

Acceptances of simplified practice recommendations have been received from 13,096 individual companies and 1094 trade associations.

However, another and more striking fact is evidenced in the steadily rising average of adherence over a steadily increasing number of completed simplifications, for this result can mean but one thing; that American Industry has found that simplification pays and pays well. If there were no dollars and cents benefits from simplifi-

(Continued on Page 24)

New York Franchise Tax on Ordinary Business Corporations

By JOHN A. MARIK

(New York Office)

The franchise tax on ordinary business corporations is imposed under Article 9A of the New York Tax Law (L. 1917, C. 726, as amended to date). It must be distinguished from the franchise tax under Art. 9 of the Tax Law, which applies to real estate and holding corporations only. Other articles of the law relate to the taxation of special treatment corporations and are not considered in this discussion.

Report

July 1st is the due date for the filing of this report (Form 3IT) with the State Tax Commission, Albany, N. Y. For a fiscal year ending March 31, April 30, May 31 or June 30, the report is due 30 days after the actual date of filing of Federal return. If organization is perfected and stock issued subsequent to June 30, but prior to Nov. 1, report of stock issue must be filed before Nov. 30 (Form 60 CT). A change in the annual accounting period from a calendar to a fiscal basis requires the report to cover a period of more than one year. Extension of time (no tentative state report is necessary) to file Federal return, per se, operates to extend the time to file the state report to a date 30 days after the extended Federal date. Extension may be secured, upon application, conditioned upon good cause and accrual of interest from Jan. 1 following, even though the bill is not rendered until a later date. In cases of mergers

or consolidations, if the property or corporate franchises are acquired between June 30 and Nov. 1, report is due within 30 days after the effective date of the consolidation or merger; in all other cases, it is due July 1st.

Accrual and Payment

The tax accrues Nov. 1, which is the beginning of the franchise tax year. Tax liability attaches to a New York corporation and its property, if the corporation is in existence on that date. A formal dissolution, as a matter of public record, is a prerequisite to a termination of such existence. To relieve a foreign corporation from tax liability it must, prior to that date as a matter of public record, formally withdraw from doing business in the state. The tax is payable Jan. 1, but if the bill is rendered as of Dec. 2 or thereafter, payment is due 30 days after the date of the bill. Penalty.—10% of tax and 1% per month or fractional part of month up to payment. There is statutory authority for the remission of penalties in cases of non-wilful defaults.

Accrual for tax and Accounting Purposes

An accountant does not discharge his full professional responsibilities unless he reflects the proper tax liability in a corporate balance sheet. For Federal tax purposes, taxes are deductible when paid or accrued, depending upon whether accounting is based

upon actual receipts and disbursements or upon accruals. Under the accrual basis a peculiar problem is presented. A tax accrues when the liability is imposed, regardless of the time when it is payable or the period for which it is assessed or the time when the amount of the tax is determined or ascertained. While it may be correct accounting procedure to treat the amount of New York Franchise tax liability as of Nov. 1 as a deferred charge to income to be pro-rated over the ensuing tax year, the accountant must bear in mind that for Federal tax purposes, the full amount of the tax accrues as of Nov. 1 and can be claimed as a deduction only for the Federal return including that date.

Consolidations, Mergers and Acquisitions

If a business corporation acquires, either directly or indirectly, through merger or consolidation, the major part of the assets or franchises of any corporation doing business in the state during a given year, the former company is liable for and must pay all taxes that may be due and payable by the corporations on or before the succeeding Jan. 1, as though there had been no change in the business of the latter company. It is therefore of the utmost importance, that the accountant consider this matter to the end of reflecting upon the corporate books the proper tax liability. It is extremely embarrassing to learn that a client has received a tax assessment in connection with a company, whose assets have been taken over without any provision whatever to cover this additional tax liability of the acquiring corporation.

Change in Accounting Period

If a corporation changes its annual basis of accounting from a calendar year to a fiscal year in accordance with permission from the U. S. Treasury Department, the amount of income reported in the return from Jan. 1 to the end of a fiscal year, which ends prior to July 1, must be added to the income reported for the preceding calendar year. The total then enters into the computation of the state tax.

Consolidated Reports

A consolidated report of affiliated companies should not be filed in the absence of permission or direction from the taxing authorities. Form 3 ACT is used for the consolidated report, which must be accompanied by separate returns on Forms 3 IT for all of the constituent companies.

Basis of Tax

Under the existing law, the normal rate of state tax exacted from ordinary business corporations is one of the following, whichever yields the highest amount of tax:

(A) $4\frac{1}{2}\%$ of entire statutory net income;

(B) On par value stock.—1 mill on each dollar of issued capital stock at face value;

(C) On no par value stock.—1 mill on each dollar of issued capital stock at its market or actual value (but not less than \$5 per share) as determined by the taxing official;

(D) $4\frac{1}{2}\%$ of a base computed in accordance with a statutory formula (L. 1930, C. 684, amending Sec. 214 [10] of the Tax Law, signed by the Governor, April 22, 1930).

"From the sum of the entire net

income and salaries and other compensations paid to all elected or appointed officers and/or paid to any stockholder owning in excess of 5% of the issued capital stock of the corporation, deduct as a specific exemption, the sum of \$5,000 and any net loss for the reported year; from the sum so found, an exemption of 70% thereof shall be granted and the remainder shall be used as the basis of the tax."

(E) In no case, less than \$25.

Salary-Method, Third Minimum Tax

The method described under the heading (D) is a variation of the third minimum tax or salary-method, which was innovated by the 1929 amendment (L. 1929, C. 385). This provision must be considered in connection with the reasonableness of salaries paid by a business corporation. This legislation was designed to reach the small "close corporation," which usually adopted the popular form of "minimizing the tax" by absorbing all or nearly all of its profits or earnings through the conduit of officers' salaries, accounts or other forms of additional compensation. The object of the legislative attempt was to close the doors to the further piling up of "disallowance controversies and litigation."

As introduced into the law, the salary-method minimum tax provision of 1929 provided for the application of a rate of 2% to a base consisting of the entire net income plus salaries and other compensation paid to all elected or appointed officers, whether stockholders or not, and to any stockholder owning in excess of 5% of the

issued capital stock of the corporation, excepting dividends and after deducting from the base \$6,000, and any deficit for the reported year. The modification of this method under the 1930 amendment results in a reduction of the effective rate from 2% to a rate of approximately 1½%, all other conditions being balanced.

Segregation of Assets, Allocation of Income

Where a corporation transacts business partly within and partly without the state, the tax is imposed on that portion of the net income represented by a segregation of certain assets to the state. A substantially similar segregation is allowed when the capital stock method is used. A departmental ruling permits a segregation of assets in applying the salary-method minimum provision.

Treatment of Particular Items

As the net taxable income returned to the U. S. Treasury Department is the starting point in the preparation of the state report, the following items are considered in alphabetical order.

Dividend income is included in the base of the tax and requires an adjustment of Federal net income to that extent. If the assets of a corporate subsidiary are included in the segregation of assets of a parent company, dividends received from such subsidiary, subsequent to April 9, 1928, should be excluded.

Interest receivable from Federal, state, municipal or other bonds is included in the directory provision of the statute, in computing the entire net income basis. In *Macallen v. Mass.* (1929), rehearing denied, the

Supreme Court of the U. S. held that a similar corporate franchise tax imposed in that state, was in effect a tax on income and was unconstitutional to the extent that it sought to operate as an imposition upon the income from tax-exempt securities, such as State and Government bonds. The State of New York has declined to acquiesce in this decision. Under the pre-existing law in Massachusetts, its franchise tax on general business corporations was based on net income from all sources "exclusive of income from Federal, state and municipal bonds." A statutory change omitted the words quoted. This change was a *specific attempt* to grasp for and to exact a tax on income from tax-exempt securities not previously taxed. Apparently, the State of New York is taking the position that a change from a base including total value of such securities for capital stock purposes, to a base measured by entire net income, which included the income from such securities was not a *specific attempt* to tax the income from tax-exempt securities. The contention is that the Macallen case is not on "all fours" with the New York situation. In other words, this tax is not aimed directly at such income but includes it only as an incident to the measure of the tax. Can the state by any process of refined reasoning and weaving of legal technicalities distinguish the New York law from the Massachusetts law? See discussion under royalties.

Net losses for prior years.—For Federal tax purposes a net loss of one year may be carried forward as a deduction from the income of the two succeeding taxable years. Net losses

for prior years are not deductible under the New York Law.

Royalties.—The Supreme Court of U. S. held under Long v. Rockwood (1928), that a state (Mass.) cannot tax income from royalties for the use of U. S. patents. In this respect, copyrights fall into the same category. Under the Macallen decision (*supra*) the Massachusetts corporation franchise tax was held to be invalid in so far as it was measured by income from tax exempt sources. Accordingly, income from royalties on U. S. patents and copyrights should be claimed to be outside of the purview of the state tax. The U. S. District Court, So. Dist. N. Y., in connection with the Educational Films Corp. is confronted with a test case involving New York's right to base its franchise tax upon income from royalties for the use of copyrights. There is no question that a state is prohibited from taxing directly any income from U. S. patents, copyrights, Federal bonds or securities issued by Federal agencies. May such income serve as a base for the measure of a corporation franchise tax? Parenthetically, this issue bristles with ramifications in respect to accounting procedure. If tax-exempt income may be excluded from the base of the franchise tax, are the expenditures incurred in deriving such income deductible? If a constitutional limitation on such taxation is recognized, will it apply equally to equitable owners as well as legal owners? In connection with the preparation of all reports, consideration should be given to the protection of the taxpayers pending any adjudications favorable to them.

**Report of the Committee on State
Taxation of the New York State
Society of Certified Public
Accountants**

Some of the principal recommendations in the committee's report, dated January 7, 1930, in respect to the administration of the business corporation franchise tax law may be summarized as follows:

1. The third minimum tax was severely criticized in that it taxes a corporation, which actually sustains a net loss.

2. The provision for the taxation of corporations acquiring the assets or franchises of other corporations should be amended so as to cover only cases of merger and consolidation and not by outright purchases for value. Under the existing law, a corporation which legitimately and for full value acquires the assets of a non-affiliated corporation is taxed upon a profit which never accrued to it with the result that an additional price is paid for assets already paid for at full market price.

3. A simple formula should be adopted for the segregation of assets, especially in respect to accounts and bills receivable and the stocks of other corporations owned.

4. The annual allocation in and out of the state for the principal companies should be published or advice supplied as to how this information may be secured. This would enable a corporation, which has stock investments in such companies acquired by purchase in the open markets, to comply with the law. An allocation of the value of such stocks is required on

the basis of the underlying assets in and out of the state representing the stock so held.

5. Specific rules similar to those governing Federal practice should be adopted in connection with consolidated reports, with the right or liability to file them fixed definitely by statute.

6. Net losses for prior years should be allowed as deductions by conforming the state law to the Federal law to the end of stabilizing the tax liability over a period of years.

7. The tax department should publish all of its opinions and rulings and formulate regulations to the end of guiding all taxpayers.

8. If a return is ambiguous or certain information is lacking, the additional information should be supplied by correspondence or supplemental affidavits; assessment should not be made until all the facts are before the bureau; if a return is disregarded in any way in fixing the tax, a statement of the computation of the tax should accompany the notice of assessment.

9. Tax hearings should be held at the option of the taxpayer in New York City, where a majority of the corporations involved have their principal offices. Nearly all hearings are now held in Albany.

10. A limitation of two years should be fixed by statute as the period of assessment. At present there is no limitation whatever.

Some of these proposals were incorporated in bills, which were introduced at the recent session of the legislature, but which were not enacted into law.

Accounting Experience

(Continued from Page 8)

perience that clients are supremely interested in, even though they may not always stop to analyze, or trace results to causes. I refer to the measure of the adaptability of the firm's representative in any engagement to that client's business. This rests fundamentally upon the extent to which we are able to understand our clients and temporarily at least become imbued with the spirit and personality of their organizations.

I am impressed every day more and more with inherent and fundamental differences between clients even in the same or similar lines of business. Two companies may each be making a success by following diametrically opposite policies and methods. I know of such. Probably each would be a failure if it attempted to imitate or adopt the methods of the other. Their present successes result from being themselves.

IV

If this brief article has seemed to any reader to be far afield from accounting problems, it might be well to remember that the value of each individual in this organization is dependent largely upon the breadth and depth and versatility of his experience, not only in a technical sense, but also as to his wisdom and appreciation of business problems, as well as ability to deal with and appreciate understandingly the individuals he comes in contact with.

The reputation, standing and progress of the firm has been built up on the basis of such experience and never ceases to depend primarily upon it.

The value to clients of our services is dependent upon our experience. It is the measure of our helpfulness.

The progress of accountancy itself depends upon the experience of its practitioners.

Two facts constantly impress me more and more:

(1) Errors do not balance, or if temporarily hidden or passed over, they later arise to trouble us. Moreover they can always with patience and courage be located and eliminated. And even more important there is no legitimate problem or difficulty in accounting procedure that cannot be solved. We can be confident of success.

(2) The broader our experience, the greater can be our service. The field for worth while service is not restricted, limited or definite, but variable, and dependent largely or perhaps mainly upon our own capacity.

So if accounting work for any of us as individuals falls off, we have not in the first instance to complain of external conditions, but rather look to ourselves and ascertain why and wherein our services are not such as to prove so helpful as to be more in demand than the limits of our time permit.

Mr. Robert E. Warren, manager of our Cleveland office, addressed a joint meeting of the Columbus Chapter of the National Association of Cost Accountants and of the College of Commerce of Ohio State University on May 23. His subject was "The Place of the Accountant in Planning for the Future."

Simplification and the Accountant (Continued from Page 17)

cation, industry certainly would not stick to these programs for sentimental reasons.

Again, this high adherence demonstrates that industry does keep faith with its members, its trade and its consumers, both of whom are also parties to every simplified practice program which the Department of Commerce helps to effect. The Division of Simplified Practice was established to effect elimination of waste through Industry's voluntary cooperation in self-government. This record is ample proof that industry through "voluntary cooperation in self-government," the world famous Hoover formula, does not need a policeman at its elbow to make it do those things which are for the public good, and therefore, for its own.

The dictionary defines an accountant as one who gives a reckoning or renders a judgment. Surely, he is in a position, due to past experience, and observation, to suggest to his clientele that simplified practice be applied, when so warranted. Certainly he can analyze the needs of industries with whom he deals and render the valuable service of showing that the industry could be materially strengthened with increased net profits, if superfluous varieties were eliminated from manufacture or stock. Assuredly, it would be advantageous for him to urge the simplification of packages and containers, which would expedite the taking of inventories.

The accountant today should be "closer" to his client than ever before. The accountant can, therefore, give

such a reckoning and render such a judgment on simplification, whenever expedient, as will be of service to his client, if applied, and be a mark of progress in the profession of accountancy.

Audit Reports

(Continued from Page 5)

presenting an interesting report. So many times, the clients' employees prepare masses of statistics, but only rarely are the main features summarized for the benefits of executives or stockholders not in close touch with the operations.

In order to assist the staff in reading reports issued on engagements other than their own, it was agreed that the auditors' copies of all current reports of general interest might be kept together for a while in a special folder available for review by the staff, and reports of particular interest called to the attention of the staff.

The careful reading of the memo for next audit file was recommended both for the scope of the audit and the type of report required. In one instance, an auditor assigned to an interim audit prepared a complete report with schedules, whereas the engagement called for only a short letter, without any figures, merely stating that the accounts had been audited, and submitting any exceptions which might have been noted.

Mr. Walter A. Staub was recently elected First Vice-President and Mr. Prior Sinclair, Treasurer of the New York State Society of Certified Public Accountants.

